



New Zealand Society of Actuaries (Inc)

Income Streaming in Retirement

Options for New Zealand

June 2015

This paper is about ways in which New Zealanders could convert their savings into income during retirement



“New ways of thinking are needed...”

How to manage money in retirement is a critical issue for New Zealanders.

By “retirement” we mean the phase of life when most people do little or no paid work and generally need income from their savings or other sources.

The problem is often defined as *how can income be streamed from savings when New Zealand has no annuity market?*

This paper explains how the challenges of income in retirement are both subtle and complex, and that a lack of annuities need not be a sticking point. We believe new ways of thinking are needed about how to put together individual solutions to manage individual circumstances and risk preferences.

Actuaries are experts in identifying and managing the financial implications of risks. This issue is in our heartland. This paper provides actuarially informed comment which we see as one input to the critical work the Retirement Commissioner is doing in her review of policy options for the voluntary annuitisation of retirement savings.

This paper has been written by a group of actuaries who collectively have a wealth of experience and different perspectives on superannuation and retirement. The following is a summary of the full paper, which you can find on the website of the New Zealand Society of Actuaries, www.actuaries.org.nz.

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There is an increasing interest in retirement and retirement income

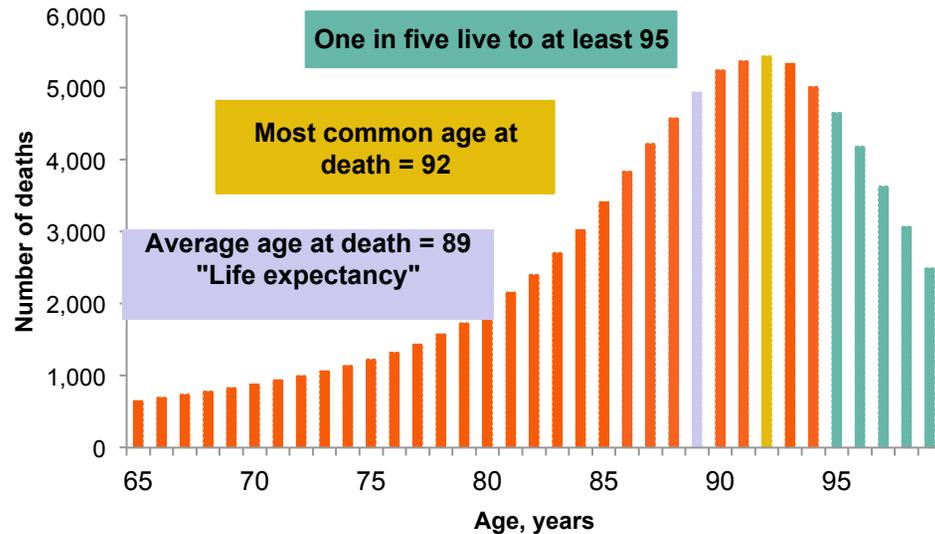
Retirement is a large and growing part of New Zealanders' experience.

There will be more than one million New Zealanders reaching age 65 over the next twenty years. Already most New Zealanders reaching their 65th birthday can expect to live for at least a further twenty years. People in their twenties today can expect to live nearer to thirty years after age 65.

Uncertainty and change are common retirement themes.

People may retire at a different time and in different financial circumstances than they expected. Uncertainty and change continue throughout retirement: people are likely to live longer than they expect, investment and inflation risks continue and additional costs may arise, especially because of health or long-term care needs.

“Already most New Zealanders reaching their 65th birthday can expect to live for at least a further twenty years.”



Estimated number of deaths at each age (from 65 to 100) for 100,000 female New Zealanders who reach their 65th birthday in 2015

Source: Calculated from Statistics New Zealand cohort life tables (updated September 2014) and 2014 (base) national population projection mortality assumptions, based on medium death rates. Average age at death (cohort e65) from *How long will I live?*

New Zealanders experience retirement in diverse ways

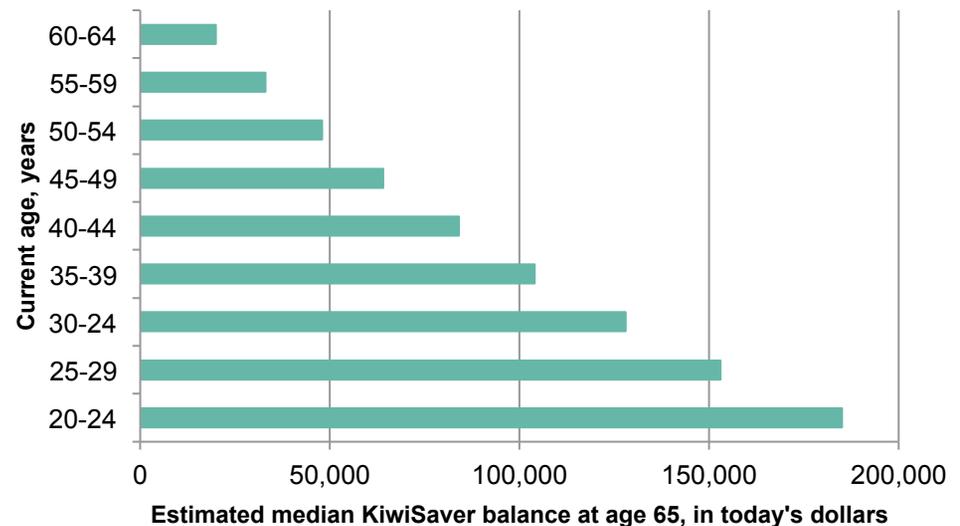
Because of different work, financial and health experiences, diversity is an inherent theme of retirement.

Financial requirements in retirement critically depend on home ownership, health and activity. New Zealand Superannuation is the dominant source of income. Earnings from work are growing in importance for older New Zealanders. This type of income is sometimes derived from different work than that of earlier life.

KiwiSaver is changing the retirement landscape.

The existence of KiwiSaver will increase demand for ways of converting assets into retirement income. More and more New Zealanders will reach age 65 with a KiwiSaver balance, and the size of the funds available will grow. We estimate about half of the KiwiSaver members reaching age 65 in twenty-five years' time will have a KiwiSaver balance of \$100,000 or more in real terms.

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Source: Estimates calculated based on a sample of KiwiSaver holdings from four providers, assuming continuation of current policy and savings behaviour. See full paper for details.



The debate is often framed as one about annuitisation, but other strategies exist

Some suitable ways of using assets to provide income - whether from KiwiSaver, other savings, a home equity loan or selling property - already exist in New Zealand.

Funds can be drawn from KiwiSaver or invested in income-generating assets such as term deposits. The most obvious gap is that annuity products that guarantee income for life are currently unavailable.

However, most people will have guaranteed lifetime income from New Zealand Superannuation.

This means that the critical question is less about "What products need to be made available?" but more "How can an individual put together an appropriate mix of solutions?"

Practical and relevant financial guidance will become ever more critical.



However the gradual increase in the number and size of maturing KiwiSaver balances provides time for the market to innovate.

We estimate that the median maturing KiwiSaver balance will be below \$50,000 in today's dollars for those aged 50-54 now, with at least ten years to go before funds can be accessed. The median reaches \$100,000 in real terms in around twenty-five years' time.

Market innovation will develop to meet the growing market for income-streaming products: drawdown, home equity and annuity-type products.

Innovation may focus on wealthier customers and on niche products that leave some risk with the customer. We note that regulators have been responsive to new business cases and we hope this continues

Should the proposal of a full state-provided voluntary annuity solution be developed further? What are the issues?

Government provision may be the only practical way in which all KiwiSavers have the option to turn their savings into guaranteed lifetime income.

However it may not be a straightforward or quick solution. We would not like to see market innovation stifled by a futile wait for Government provision. It would be helpful if the Government, taking relevant advice, signalled its interest in state intervention in annuity provision as soon as possible.

Given the diversity of needs, the uncertainties inherent in the retirement phase and the increasing size of the retiring population, what can be done

to give New Zealanders more guidance on options for managing their retirement savings?

A guidance focus is more appropriate than a product focus.

Two approaches may be worth developing in order to guide people towards ways to use their resources in retirement to meet their individual needs. These include:

1. Simple, approved, "rules of thumb" freely available (e.g. via Sorted.org.nz); and
2. Access to simple forms of approved independent financial guidance at key times during retirement.

Developing rules of thumb, other tools and guidance in New Zealand will require input from a range of experts, including actuaries.

We are concerned, in particular, to ensure that individuals are informed about longevity, mortality, credit, inflation and investment risks, as well as uncertainties around costs, including the cost of medical and long-term care.



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This paper has been prepared on behalf of the New Zealand Society of Actuaries.

The paper represents the collective personal views of the members of the Society's Retirement Income Interest Group. It does not necessarily represent the positions of their employers.